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TO RUEHC/SECSTATE WASHDC PRIORITY 1763
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RUEHBJ/AMEMBASSY BEIJING PRIORITY 2995
RUEHBY/AMEMBASSY CANBERRA PRIORITY 6071
RUEHKO/AMEMBASSY TOKYO PRIORITY 8352
RUEHCHI/AMCONSUL CHIANG MAI PRIORITY 2462
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 BANGKOK 005797

SIPDIS

SENSITIVE
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STATE FOR EAP/MLS AND EB
COMMERCE FOR EAP/MAC/OKSA
TREASURY FOR OASIA
STATE PASS TO USTR FOR WEISEL
STATE PASS TO FEDERAL RESERVE SAN FRANCISCO FOR DAN FINEMAN
STATE PASS TO FEDERAL RESERVE NEW YORK FOR MATT HILDEBRANDT

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TAGS: [ECON](#) [EFIN](#) [TH](#)
SUBJECT: LIMITED ECONOMIC FALLOUT FROM COUP

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11. (SBU) There is near universal agreement among Thai and US businesspersons and RTG civil servants with whom we have spoken that any economic fallout from Thailand's military coup will be shallow and short-lived. Banks tell us that they have very few clients asking to exit baht-denominated portfolio investment while a number are actually seeking to buy on any further baht or Stock Exchange of Thailand weakness. As one bank executive told us "if the baht goes down more, many foreign hedge fund will see this as a short-term opportunity to buy cheap Thai stocks at a further discount." Most expect tomorrow to bring a decline in the value of the baht and Thai equities to be quickly followed by a rally back up, perhaps above previous levels. One analyst noted that following the February 1991 coup, the Stock Exchange index fell 8 percent on day one following the event, but gained 19.5 percent in the following three weeks. The Exchange reports that they plan on operating normally tomorrow.

12. (SBU) We spoke to the Governor of the Bank of Thailand by cell phone as he was returning to Bangkok from the Bank/Fund meetings in Singapore. He said that the baht had depreciated from 37.30/\$ to 37.95/\$ as news of the coup spread, but quickly strengthened to 37.60-37.70 as Thai exporters took advantage of the situation to convert dollars. He said the BoT had not intervened in the currency markets and, while prepared to do so, had no expectation that it would be necessary. He also advised that the Bank stood ready to add liquidity to the banking system if such action were necessary. In a subsequent conversation, the Assistant BoT Governor for Financial Institutions said that in his survey of banks there was no indication of any expected increase in cash withdrawals or demand for foreign currency and expects banks to reopen tomorrow. At foreign exchange kiosks open today business has been slow, presumably because of a decline in arriving tourists and an expectation among consumers that the baht will be lower tomorrow. The price on Credit Default Swaps which increased from US\$35,000/contract to US\$55,000 yesterday is reportedly back below US\$40,000 this afternoon.

13. (SBU) An official from the Federation of Thai Industries

explained that the coup was "good news for business" because "everyone is tired of all the political fighting." He added that he expects a caretaker government to be named soon that will be comprised of highly qualified technocrats "who could make decisions." Dr. Pichit Likitkijsomboon, an economics professor at Thammasat University, said the military was not well informed on economic issues and did not expect them to make any radical changes that would affect the long-term investment environment. The Deputy Director General of the Fiscal Policy Office of the Finance Ministry echoed this view, recalling that after the 1991 coup, the interim government pushed through regulations that had long been bottled up in the parliament of the bureaucracy. The Executive Director of the American Chamber of Commerce in Bangkok advised us that some foreign companies had not opened today due to uncertainty as to how martial law would be implemented but that they

had no particular concerns about business conditions going forward. Thai exporters with whom we spoke were positive on the political developments, saw no real downside to their export business and looked forward to greater economic stability. They were concerned about the short-term impact on the domestic market, but believed the impact would be minimized if the military executed a quick transition to civilian leadership.

14. (SBU) The biggest caveat in this rosy scenario is if violence breaks out between Thaksin supporters and coup-backers - a possibility that seems unlikely but cannot be dismissed. Such an event would likely depress confidence for a far longer period and negate the relief felt by many that the political battles of the past year are now over and everyone can focus on their jobs, including government bureaucrats. Violence would also seriously impact the important Thai tourism industry, a sector that contributes 6 percent of total Thai GDP. Barring the outbreak in violence,

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however, the feeling among most Thais is that overall uncertainty is reduced because of the coup, and less uncertainty is better for business. While all the key credit rating agencies now have their rating on Thailand under review, it appears that they will be little changed.

15. (SBU) Comment: The optimism of the business community, even in the face of martial law, is striking. One foreign brokerage has actually recommended a double-weighting for Thai assets in the wake of the coup. Most expect a knee-jerk decline in markets tomorrow morning followed by a rapid recovery. The real question is how the economy reacts over the next year. Will the apparent approval of the coup among consumers and business result in increases in domestic consumption and private investment? Will an interim government be able to make some of the infrastructure investments that have been on hold for the past year? The answers to these questions will determine whether Thai economic growth remains sluggish over the short-medium term.
BOYCE